

Measuring Noncompliance

Washington State Department of Revenue



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2003 MTC Annual Meeting
Salt Lake City, Utah

Governor's Efficiency Commission

June, 1988

Governor Booth Gardner, chair

Perform random sample audits

- **Audit coverage**
- **Audit selection**
- **Noncompliance measure**

3 Purposes

- **Coverage Audits**
- **Base for Audit Selection Modeling**
- **Measuring Taxpayer Noncompliance**

Random Sample Audits

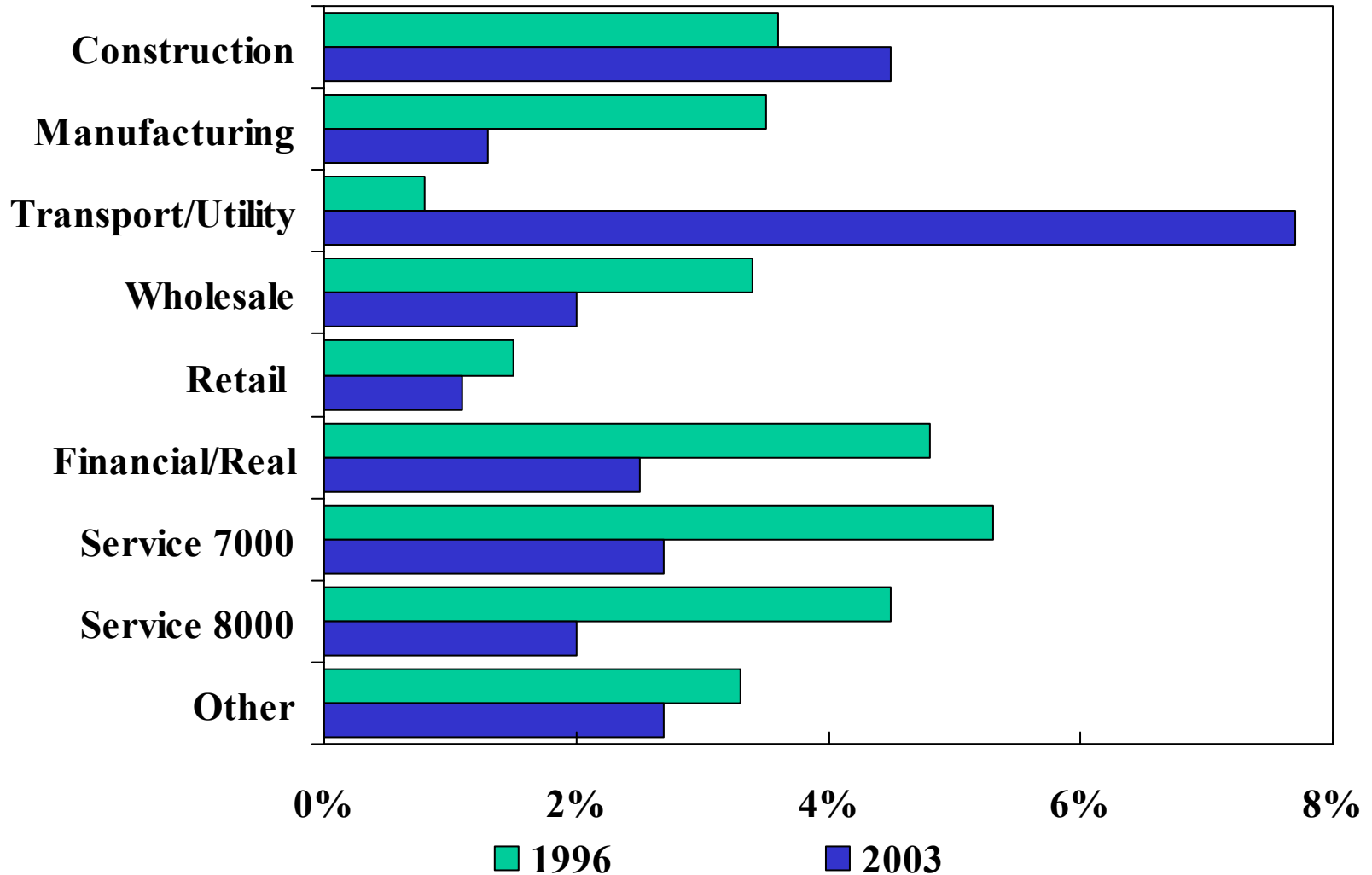
- **Stratified by Size and Industry**
- **Designed to Represent Universe of Registered and Reporting Taxpayers**
- **Most Years - 720 Audits**
- **Selected Independently from Regular Audit Selection**
- **Overlaps Regular Selection (especially large firms)**

Year 2003 Random Audit Selection Population

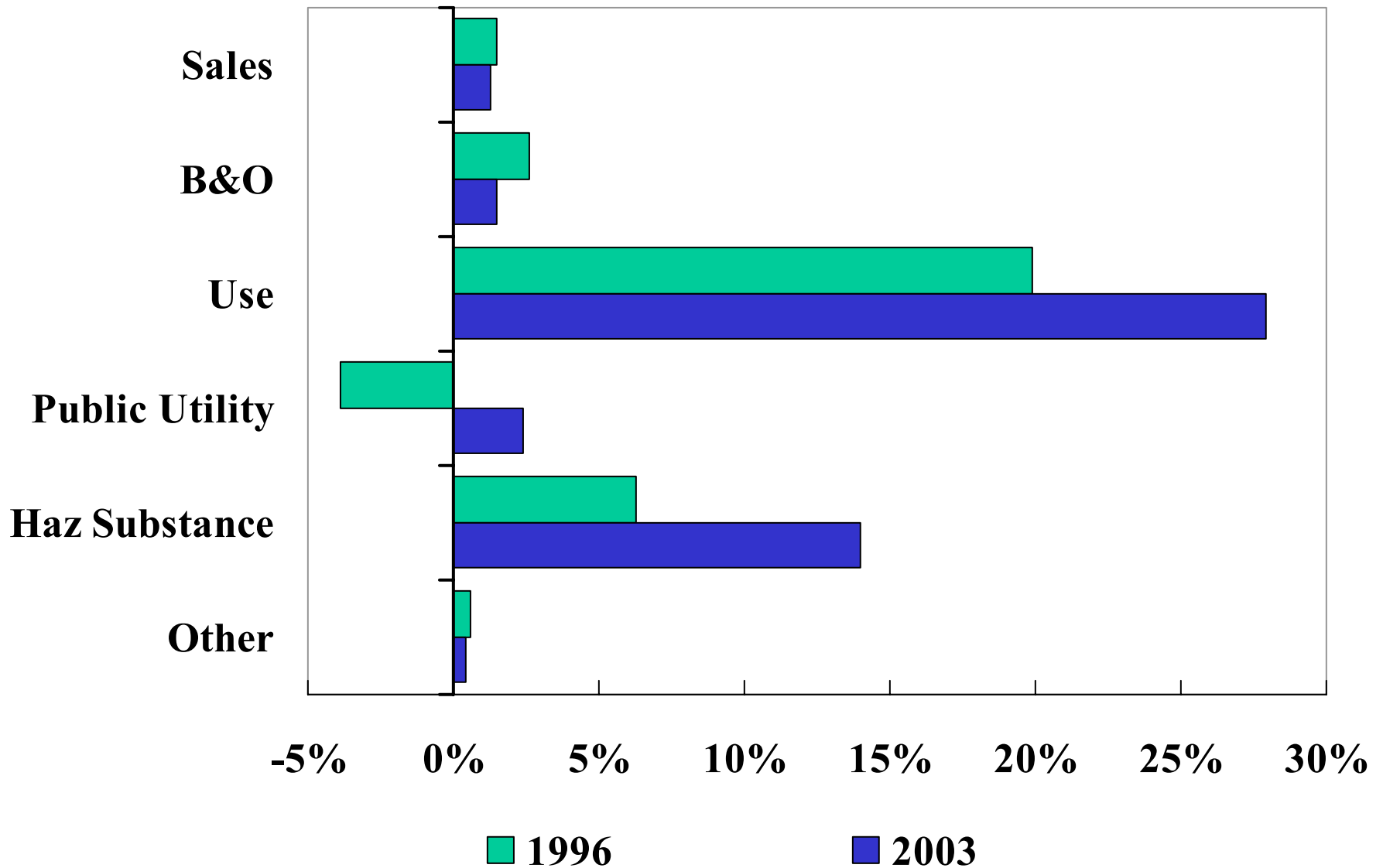
| | Count | Count | Count | Gross |
|---------------------|---------|--------|-------|-------------------|
| | Small | Medium | Large | Income |
| Construction | 21,850 | 1,503 | 182 | \$22,219,841,810 |
| Manufacturing | 6,571 | 386 | 96 | 24,134,622,617 |
| Trans/Util | 5,161 | 329 | 60 | 9,499,517,952 |
| Wholesale | 12,310 | 734 | 98 | 62,603,290,905 |
| Retail | 31,600 | 1,780 | 280 | 56,635,997,700 |
| Finance/Real Estate | 7,474 | 496 | 53 | 8,816,452,922 |
| Bus & Pers Services | 25,882 | 1,388 | 129 | 27,725,136,547 |
| Prof Services | 28,532 | 1,748 | 116 | 32,281,477,678 |
| Total | 139,380 | 8,364 | 1,014 | \$243,916,338,131 |

Firms within each industrial category are arrayed by gross income and assigned to cells so that approximately a third of gross income is in each cell. A random sample of 30 is drawn from each cell. This way large firms are more heavily sampled than small firms. There is some overlap with mainstream audit selection.

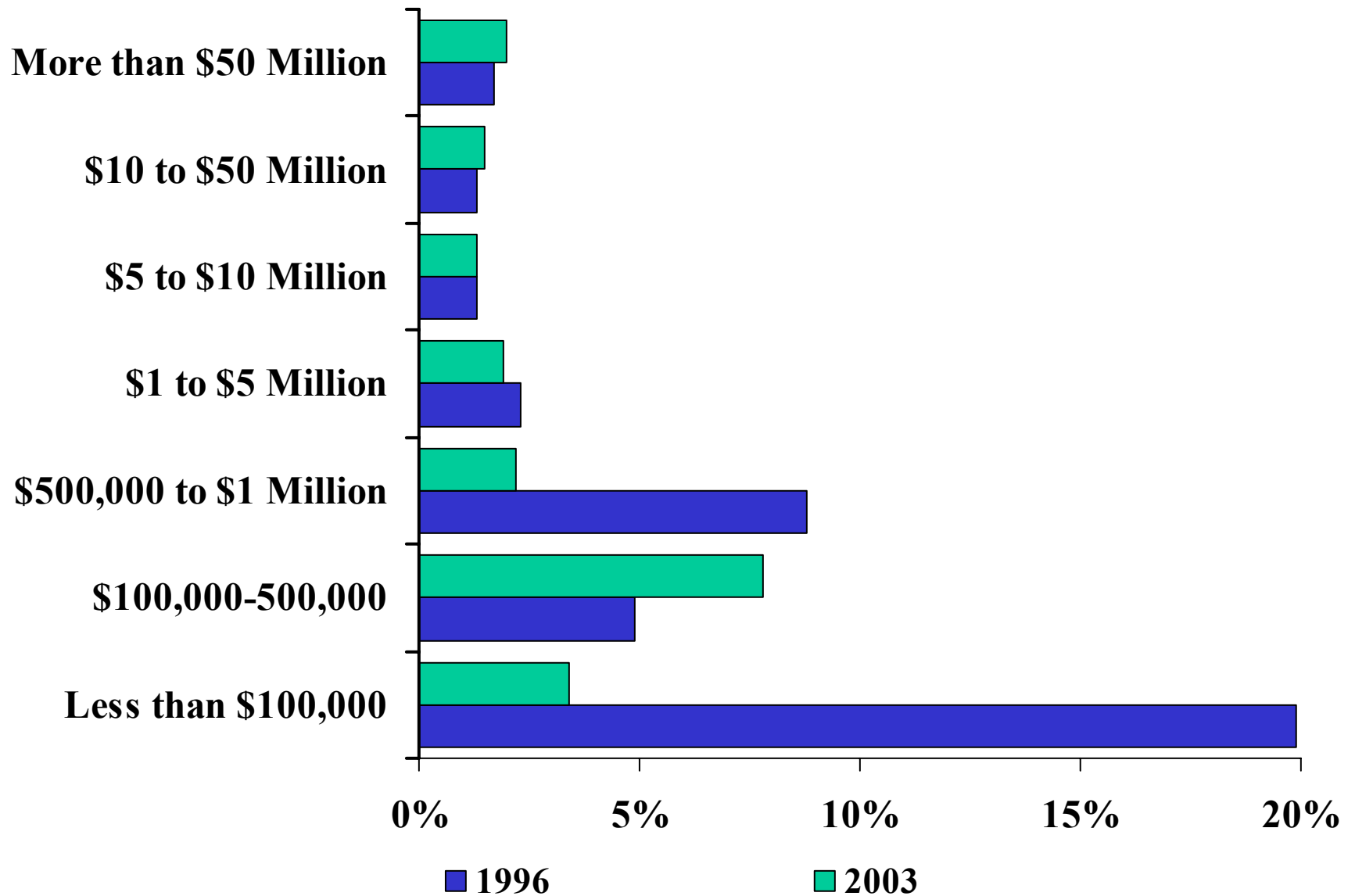
Noncompliance by Industry



Noncompliance by Tax Type



Noncompliance by Size



Positive Use Tax Assessments by Industry

| | 1996 % Unreported Tax Liability | 2003 % Unreported Tax Liability |
|-------------------|---------------------------------------|---------------------------------------|
| Construction | 28.1% | 18.3% |
| Manufacturing | 45.3% | 50.0% |
| Transport/Utility | 53.8% | 55.2% |
| Wholesale | 28.2% | 37.3% |
| Retail | 29.0% | 24.6% |
| Financial/Real | 33.6% | 29.5% |
| Service 7000 | 35.3% | 40.9% |
| Service 8000 | 56.2% | 35.7% |
| Other | 52.9% | 40.6% |